

Message Text

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ACTION ARA-10

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R 241830Z DEC 75

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 0000V

C O N F I D E N T I A L SECTION 1 OF 2 CARACAS 13409

E.O. 11652: GDS

TAGS: EIND, EINV, ECIN, VE

SUBJECT: POSSIBLE CRISIS IN THE AUTOMOTIVE INDUSTRY

REF: CARACAS 11140

CAUTION: PROPRIETARY INFORMATION INVOLVED

1. SUMMARY - U.S. AUTOMOBILE ASSEMBLERS IN VENEZUELA
CONTINUE TO BE CONCERNED THAT THE GOV DOES NOT RECOGNIZE THE
ESSENTIAL REQUIREMENTS FOR A VIABLE EXPANSION OF AUTOMOBILE
MANUFACTURE IN VENEZUELA. THE DEADLINE FOR SUBMISSION OF
COMPANY PROPOSALS FOR CONTINUED PARTICIPATION HAS BEEN POSTPONED
FROM JANUARY 15 TO MARCH 1, 1976 BUT COMPANY OFFICIALS WHO HAVE
SPOKEN WITH US ARE PESSIMISTIC THAT A COMMON MEETING
GROUND BETWEEN THE COMPANIES AND THE GOV CAN BE ENCOUNTERED
BEFORE THAT DATE. END SUMMARY.

2. EMBASSY CONVERSATIONS WITH GENERAL MOTORS (SEE REFTEL)
AND CHRYSLER OFFICIALS CONFIRM THAT THE GOV AND THE COMPANIES
MAY BE HEADED FOR A SERIOUS IMPASSE REGARDING FUTURE DEVELOP-
MENT OF THE AUTOMOBILE INDUSTRY. AS REPORTED PREVIOUSLY,
THE GOV THROUGH THE MINISTRY OF DEVELOPMENT HAS CALLED UPON THE
INDUSTRY, NOW CONSISTING OF 14 FOREIGN-OWNED ASSEMBLY COMPANIES,
TO SUBMIT COMPREHENSIVE PLANS FOR TRANSFORMATION OF THE
AUTOMOBILE INDUSTRY IN 15 YEARS FROM AN ASSEMBLY OPERATION
INVOLVING ABOUT 35 PERCENT LOCAL CONTENT TO A FULLY INTEGRATED
MANUFACTURING OPERATION TO ATTAIN THE 90 PERCENT LOCAL CONTENT
TARGETED BY THE GOV. THE DEADLINE FOR SUBMISSION OF SUCH PLANS
HAS BEEN POSTPONED FROM JANUARY 15 TO MARCH 1, 1976 FOR THE CON-
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VENIENCE OF THE GOVERNMENT. WITH THE APPARENT POSTPONEMENT OF

COMPLETION OF THE AUTOMOBILE SECTOR PROGRAM OF THE ANDEAN PACT, THE GOVERNMENT DOES NOT FEEL ITSELF UNDER SUCH GREAT PRESSURE TO COMPLETE ITS PLANS.

3. MR. MICHAEL KATZEN, PRESIDENT OF THE LOCAL CHRYSLER SUBSIDIARY INFORMED THE AMBASSADOR ON DECEMBER 22 THAT THERE ARE TWO ESSENTIAL REQUIREMENTS FOR A SERIOUS RESPONSE BY THE AUTOMOBILE INDUSTRY TO THE GOVERNMENT'S EXPANSION PROGRAM. IN THE FIRST PLACE, THE GOVERNMENT'S UNREALISTIC PRICE CONTROLS ON SMALL AND MEDIUM-SIZED CARS MUST BE RATIONALIZED. AS MATERIAL COSTS HAVE RISEN, THE GOVERNMENT HAS NOT PERMITTED CORRESPONDING INCREASES IN CONTROLLED PRICES OF "POPULAR" MODELS, WITH THE RESULT THAT COMPANIES ARE SUFFERING SUBSTANTIAL LOSSES WHICH THEY ARE NOT ABLE TO OFFSET THROUGH PROFITS ON SALES OF LARGER UNCONTROLLED MODELS. THE GOV HAS SET PRODUCTION RATIOS ON CONTROLLED AND UNCONTROLLED MODELS. THEREFORE, IF THE PRICE SITUATION IS NOT REMEDIED, KATZEN BELIEVES THAT CHRYSLER AND THE OTHER COMPANIES WILL SOON HAVE NO ALTERNATIVE OTHER THAN TO CUT BACK ON TOTAL AUTOMOBILE PRODUCTION IN ORDER TO STEM THEIR LOSSES. THE GOVERNMENT HAS PROMISED A NEW PRICE POLICY FOR EARLY NEXT YEAR, BUT BECAUSE OF ITS FAILURE TO REMEDY THIS SITUATION IN THE PAST, KATZEN AND HIS SUPERIORS IN THE U.S. HAVE LITTLE CONFIDENCE THAT THE GOV WILL BE WILLING TO TAKE THIS ESSENTIAL STEP.

4. THE OTHER ESSENTIAL REQUIREMENT FOR DEVELOPMENT OF THE AUTOMOBILE INDUSTRY WITH FOREIGN PARTICIPATION, ACCORDING TO KATZEN, RELATES TO THE GOVERNMENT'S REQUEST FOR INDUSTRY DEVELOPMENT PROPOSALS. KATZEN SAID THAT THE COMPANIES ARE RESPONDING TO THE GOVERNMENT'S REQUEST UNDER CONSIDERABLE DURESS. THE FORMULATION OF THE REQUEST IS EVIDENTLY THE WORK OF MINOR GOVERNMENT OFFICIALS IN THE MINISTRY OF DEVELOPMENT WHO APPEAR TO HAVE AN IDEOLOGICAL BIAS AGAINST TRANSNATIONAL CORPORATIONS. THE GOV HAS REQUESTED A FIRM COMMITMENT, INCLUDING A PERFORMANCE BOND, FOR AN INVESTMENT PROGRAM INVOLVING SUBSTANTIAL CAPITAL COSTS WITHOUT PROVIDING REASONABLE ASSURANCE THAT THE COMPANIES CAN EXPECT A PROFIT OR THAT THEY CAN EVEN FULFILL THE COMMITMENTS TO BE ASSUMED. KATZEN SAID THAT CHRYSLER CAN ONLY RESPOND TO THE GOVERNMENT'S REQUEST ON A CONDITIONAL BASIS. BEFORE DOING SO, HOWEVER, HIS PRINCIPALS IN THE U.S. HAVE TOLD HIM THAT THEY WISH

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TO SEE WHAT ACTUAL CHANGES THE GOVERNMENT IS WILLING TO MAKE IN ITS PRICING POLICY.

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5. KATZEN BELIEVES THAT SOME MEMBERS OF THE INDUSTRY MIGHT BE WILLING TO RESPOND TO THE GOVERNMENT REQUEST ON A LESS THAN STRAIGHTFORWARD BASIS BY ASSUMING COMMITMENTS THAT THEY WOULD LATER HAVE TO AVOID COMPLYING WITH. HE CITED THE EXAMPLE OF TOYOTA'S AGREEMENT WITH PERU SOME YEARS AGO TO ESTABLISH A PLANT IN THE CITY OF TRUJILLO. THE COMPANY AND THE GOVERNMENT OF PERU HAVE FOUND MUTUALLY CONVENIENT REASONS TO POSTPONE COMPLIANCE WITH THE PLAN.

6. KATZEN BELIEVES THAT THE GOV DOES NOT FULLY REALIZE THE IMPLICATIONS OF THE POTENTIAL INDUSTRIAL CRISIS THAT IT IS FACING. ALTHOUGH THE AUTOMOBILE INDUSTRY IS FAR LESS IMPORTANT THAN THE LEADING PETROLEUM INDUSTRY, IT IS PROBABLY VENEZUELA'S SECOND LEADING INDUSTRY, AND IS ESPECIALLY IMPORTANT IN PROVIDING EMPLOYMENT. CHRYSLER'S STUDIES SHOW, FOR EXAMPLE, THAT \$3,000 OF INVESTMENT IN THE PRESENT LABOR-INTENSIVE ASSEMBLY INDUSTRY PROVIDES ONE EMPLOYMENT OPPORTUNITY. THIS IS A VERY HIGH RATIO COMPARED TO MOST OTHER MANUFACTURING INDUSTRIES. DEVELOPMENT OF A FULLY INTEGRATED INDUSTRY, ON THE OTHER HAND, WILL REQUIRE A LARGE CAPITAL INVESTMENT IN SPECIALIZED EQUIPMENT FOR EACH JOB CREATED.

7. KATZEN DOES NOT SEE ANY EVIDENCE THAT THE GOV IS LIKELY TO DEVELOP A MORE REASONABLE ATTITUDE TOWARDS DEVELOPMENT OF THE AUTOMOBILE INDUSTRY. HE BELIEVES IT IS LIKELY THAT A SERIOUS CRISIS WILL HAVE TO OCCUR BEFORE THE GOV WILL RECOGNIZE THE IMPRACTICABILITY OF ITS SCHEMES AND BEFORE HIGH-LEVEL GOVERNMENT ATTENTION CAN BE CONCENTRATED ON THE REALITIES OF THE INDUSTRY.

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8. COMMENT - ALTHOUGH THERE MAY BE A TENDENCY ON THE PART OF REPRESENTATIVES OF THE AUTOMOBILE INDUSTRY TO EXAGGERATE THE SITUATION, THE EMBASSY BELIEVES THAT THE PESSIMISTIC OUTLOOK REPORTED IS SUBSTANTIALLY CORRECT. THE PRESENT MINISTER OF DEVELOPMENT, DR. IGNACIO CASAL, IS ONE OF THE WEAKEST MEMBERS OF THE CABINET. EVEN IF HE RECOGNIZED THE PROBLEM, IT IS NOT LIKELY THAT HE HAS THE INFLUENCE TO DIVERT THE GOVERNMENT'S POLICY FROM ITS PRESENT COLLISION COURSE WITH THE AUTOMOBILE INDUSTRY. THE PEREZ ADMINISTRATION, WHILE EXTREMELY THOROUGH AND BASICALLY CAUTIOUS IN EXECUTING BOLD DECISIONS WITH RESPECT TO THE PETROLEUM AND IRON MINING INDUSTRIES, IS SPREAD VERY THINLY AND MAY NOT BE CAPABLE OF RECOGNIZING THE PROBLEM AND DEVELOPING A RATIONAL POLICY IN TIME TO AVERT A SERIOUS CRISIS IN THE AUTOMOTIVE INDUSTRY.

9. WHILE IT IS ESSENTIAL THAT THE AUTOMOBILE INDUSTRY AND THE GOV REACH AN UNDERSTANDING THROUGH DIRECT NEGOTIATIONS, WE ARE ENCOURAGED THAT THE GOV AT LEAST RECOGNIZES ITS NEED FOR AN INDEPENDENT OUTSIDE CONSULTANT TO ADVISE IT ON THE TECHNICAL FEASIBILITY OF PROPOSALS RECEIVED FROM THE INDUSTRY. THE EMBASSY HOPES THAT AID'S PROJECTED ASSISTANCE TO THE GOV IN DRAWING UP THE SCOPE OF AN APPROPRIATE CONTRACT AND IN SECURING A CONSULTANT WILL CONTRIBUTE TO THE GOV'S RECOGNITION OF THE PROBLEMS IT MAY BE FACING. END COMMENT

CAUTION: PROPRIETARY INFORMATION INVOLVED.

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